

parent or "home office" operations; (6) patient service charge schedules; (7) contracts pertaining to the purchase of goods or services; (8) all accounting books of original entry kept in sufficient detail to show source and reason for all expenditures and payments; (9) all other accounting books; (10) Federal and State income tax returns; (11) Federal withholding and State Unemployment returns; and (12) all financial statements regardless whether prepared by the facility or by an outside firm.

All of these records shall be made available for examination at the facility, or at some other location within the Commonwealth, when requested by the Cabinet. Reasonable time shall be given to out-of-state home offices to make the records available within the Commonwealth.

320. APPORTIONMENT OF ALLOWABLE COSTS

- A. Consistent with prevailing practices where third-party organizations pay for health care on a cost basis, reimbursement under the Program involves a determination of (1) each provider's allowable costs of producing services, and (2) an apportionment of these costs between this Program and other payors.

Cost apportionment is the process of recasting the data derived from the accounts ordinarily kept by a provider to identify costs of the various types of services rendered. It is the determination of these costs by the allocation of direct costs and proration of indirect costs.

The objective of this apportionment is to ensure, to the extent reasonably possible, that the Program's share of a provider's total allowable costs are equal to the Program's share of the provider's total services, subject to Program limitations on payments so as not to pay for inefficiencies and to provide a financial incentive for providers to achieve cost efficiencies.

A provider's costs shall be apportioned using the cost apportionment methods of the Nursing Facilities Annual Cost Report.

- B. If the provider is unable to use the required cost apportionment methods when it first participates in the Program, it may apply to the Program for permission to use some other acceptable method which would accurately identify costs by departments or centers and appropriately segregate routine and ancillary costs.

330. COST REPORTING

- A. The Program requires each Nursing Facility to submit an annual report of its operations. The report shall be filed for the fiscal year used by the provider unless otherwise approved by the Program.
- B. Amended cost reports (to revise cost report information which has been previously submitted by a provider) may be permitted or required as determined by the Program.
- C. The cost report shall be due within sixty (60) days after the provider's fiscal year ends.
- D. Hospital-based and swing bed provider cost reports shall be due ninety (90) days after the provider's fiscal year ends.
- E. Providers may request in writing a thirty (30) day extension. The request shall explain in detail why the extension is necessary. There shall be no automatic extension of time for the filing of the cost report. After the extension period has elapsed, the Program shall suspend all payments to the provider until an acceptable cost report is received.

- F. Newly participating providers not having a cost report on file containing twelve months of actual data in the fiscal year shall submit a partial year cost report. Upon entry into the program, the provider shall inform the Department of the period ending date for the initial cost reporting period.
- G. A provider which voluntarily or involuntarily ceases to participate in the Program or experiences a change of ownership shall file a cost report for that period under the Program beginning with the first day not included in a previous cost reporting period and ending with the effective date of termination of its provider agreement. The report shall be due within forty-five (45) days of the effective date of termination of the provider agreement.
- H. If a new owner's fiscal year end is less than six months from the date of the change of ownership, Schedules A, D-5 and E as well as the ancillary portion of Schedule F shall be required to be filed at the end of the fiscal year. The rate paid to the new owner shall be the old owner's rate and shall remain in effect until a rate is again determined for a new universal rate year.

- I. If a provider wishes to change its fiscal year, approval shall be secured in advance from the Department prior to the start of the fourth quarter of the original reporting period. If a provider has changed its fiscal year and does not have twelve months in its most recent fiscal year, the provider shall file a cost report for its new fiscal year and include twelve months of data, i.e., the provider should use all months included in their new fiscal year plus additional months from the prior fiscal year to construct a twelve month report.

350. BASIS OF ASSETS

- A. PRINCIPLE. Unless otherwise stated in this manual or stated in a provision of Health Insurance Manual 15, which is referenced by this manual directly or indirectly, the basis of an asset shall be the purchase price of that asset paid by the current owner.
- B. REVALUATION UPON CHANGES IN OWNERSHIP. If there is a change in ownership, the Program shall treat the gain or loss on the sale of an asset in accordance with one of the following methods (dependent on the date of the transaction) for purposes of determining a purchaser's allowable basis in relation to depreciation and interest costs.
1. For changes of ownership occurring prior to July 18, 1984, or if an enforceable agreement for a change of ownership was entered into prior to July 18, 1984, the following methodology applies:
 - a. The actual gain on the sale of the facility shall be determined. Gain shall be defined as any amount in excess of the seller's depreciated basis at the time of the sale as computed under the Program policies. The value of

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goodshall included in the purchase price shall not be considered part of the gain for purposes of determining the purchaser's cost basis.

- b. Two-thirds ($2/3$) of one percent of the gain for each month of ownership since the date of acquisition of the facility by the seller shall be added to the seller's depreciated basis to determine the purchaser's allowable basis.

... This method recognizes a graduated proportion of the gain on the sale of a facility which shall be added to the seller's depreciated basis for computation of the purchaser's allowable basis. This allows full consideration of such gain by the end of 12 1/2 years.

2. For changes of ownership occurring on or after July 18, 1984, the allowable basis for depreciation for the purchaser shall be the lesser of: 1) the allowable basis of the seller, at the time of the purchase by the seller, less any depreciation

allowed to the seller in prior periods; plus the cost of any improvement made by seller, less the depreciation allowed to the seller on those improvements, at the time of closing, or 2) the actual purchase price.

3.
 - a. For changes of ownership occurring on or after October 1, 1985, the Department shall allow an increase in the valuation of capital assets.
 - b. The allowable increase, as measured from the date of acquisition by the seller to the date of change of ownership, shall not be more than the lesser of the following:

- (1) One-half ($1/2$) of the percentage increase (as measured over the same period of time, or if necessary, as extrapolated retrospectively by the Secretary, United States Department of Health and Human Services) in the Dodge Construction Systems Costs for Nursing Homes, applied in the aggregate with respect to those facilities which have undergone a change of ownership during the fiscal year; or
- (2) One-half ($1/2$) of the percentage increase (as measured over the same period of time) in the Consumer Price Index for All Urban Consumers (United States city average).